

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF POWELL'S VALLEY WATER )  
DISTRICT TO INCREASE THE RATES CHARGED) CASE NO. 8578  
ITS CUSTOMERS PER 807 KAR 5:067 )

O R D E R

On July 30, 1982, Powell's Valley Water District ("Powell's Valley") filed an application with the Commission to increase its water rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing ("ARF") method in order to minimize the necessity for formal hearings, to reduce filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility and therefore results in lower rates to the ratepayers.

Powell's Valley requested rates which would produce an annual increase of \$11,749. According to Powell's Valley's application, this increase is necessary because continued operating deficits have left it unable to meet the escrow requirements of its FHA loan. In this Order the Commission has granted an increase in the amount of \$6,003.

There were no intervenors in this matter and no protests were entered. All information requested by the Commission has been filed.

#### TEST PERIOD

Powell's Valley has proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

#### REVENUES AND EXPENSES

Powell's Valley showed a net loss for the test period of \$14,387. In order to reflect current operating conditions, Powell's Valley proposed numerous adjustments to revenues and expenses resulting in adjusted net operating income of \$7,301. The appropriate level of net operating income as determined by the Commission is \$13,527.

The Commission finds Powell's Valley's proposed adjustments to be generally proper and has accepted them for rate-making purposes with the following exceptions:

#### Purchased Water

During the test period, Powell's Valley experienced water line loss of 31 percent. Powell's Valley proposed to reduce purchased water expense by the expense associated with water line loss in excess of the 15 percent maximum line loss allowed by the Commission for rate-making purposes. Powell's Valley calculated this adjustment to be \$2,471.<sup>(1)</sup> This method of calculation used

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(1) Powell's Valley calculation:  
 $\$20,231 \div 131\% = \$15,443$  X 115% = \$17,760;  
 $\$20,231 - \$17,760 = \$2,471$

by Powell's Valley understates the actual cost of line loss in excess of 15 percent, which the Commission finds to be \$3,828.<sup>(2)</sup> Therefore, the Commission has further reduced purchased water expense by \$1,357.

#### Operation Supplies and Expenses

In response to the Commission's request for information, Powell's Valley provided evidence that test period operation supplies and expenses included \$685 for a new pump and \$5,403 for new line construction. As these are capital expenditures and will benefit future periods, they should properly be capitalized and amortized over future periods. The Commission has determined to amortize both expenditures over a 5-year period in order for Powell's Valley to achieve a reasonable level of capital recovery. This amortization results in an annual charge of \$1,218 and a reduction in test period expenses of \$4,870.

#### Regulatory Commission Expenses

Powell's Valley estimates its expenses from the present rate case to total \$2,100 to be amortized over a 3-year period. This figure has been accepted for the purposes of this case, as the Commission recognizes that ARF is a new procedure, the benefits of which may not be immediately reflected in a significant reduction of rate case expenses. However, the Commission expects

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(2) Commission calculation:

$20,549,830 \div 85\% = 24,176,271 \text{ gal.};$   
 $29,818,600 \text{ gal.} - 24,176,271 \text{ gal.} = 5,642,329 \text{ gal.};$   
 $5,642,329 \text{ gal.} \times .6785/\text{M. gal.} = \$3,828.$

that as small utilities better familiarize themselves with ARF, the resultant decrease in rate case expenses should be substantial. Thus, the Commission advises utilities filing a rate case under the ARF procedure that future rate case expenses should normally be far below the level accepted herein, and that failure to adhere to this advice could result in the disallowance of a large portion of these expenses.

Therefore, the Commission finds that Powell's Valley's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 79,907	\$ 2,375	\$ 82,282
Operating Expenses	<u>81,355</u>	<u>(12,600)</u>	<u>68,755</u>
Net Operating Income	<u>\$ (1,448)</u>	<u>\$ 14,975</u>	<u>\$ 13,527</u>

#### REVENUE REQUIREMENTS

The Commission has used the debt service coverage method to determine appropriate revenue requirements for Powell's Valley. Powell's Valley's average debt service for the next 5 years is approximately \$16,700. Powell's Valley's debt service coverage on adjusted net operating income of \$13,527 plus actual interest income of \$510 is .84X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Furthermore, the Commission is of the opinion that a debt service coverage of 1.2X is the fair, just and reasonable coverage necessary for Powell's Valley to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has

determined that additional revenues of \$6,003<sup>(3)</sup> are necessary to provide the 1.2X debt service coverage which will insure the future financial stability of Powell's Valley.

SUMMARY

The Commission, after consideration of the record and being advised, is of the opinion and finds that:

1) The rates proposed by Powell's Valley will provide revenues in excess of those found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

2) The rates in Appendix A are the fair, just and reasonable rates to charge for water service and should be approved.

IT IS THEREFORE ORDERED that the rates proposed by Powell's Valley will provide revenues in excess of those found to be fair, just and reasonable and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates for Powell's Valley to charge for water service and are hereby approved for service rendered on and after the date of this Order.

(3) Adjusted Operating Expenses +	\$68,755
1.2X Debt Service Coverage	20,040
Required Revenue	<u>\$88,795</u>
Less: Adjusted Operating Revenues +	
Interest Income	<u>82,792</u>
Increase Granted	<u>\$ 6,003</u>

IT IS FURTHER ORDERED that Powell's Valley shall file with this Commission within 30 days of the date of this Order its tariff sheet setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 28th day of September, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katherine Randall  
Vice Chairman

Don Carver  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8578 DATED SEPTEMBER  
28, 1982

The following rates are prescribed for all customers in the area served by Powell's Valley Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	2,000 gallons	\$10.15 Minimum Bill
Next	2,000 gallons	4.00 per 1,000 gallons
Next	2,000 gallons	2.75 per 1,000 gallons
Over	6,000 gallons	2.00 per 1,000 gallons